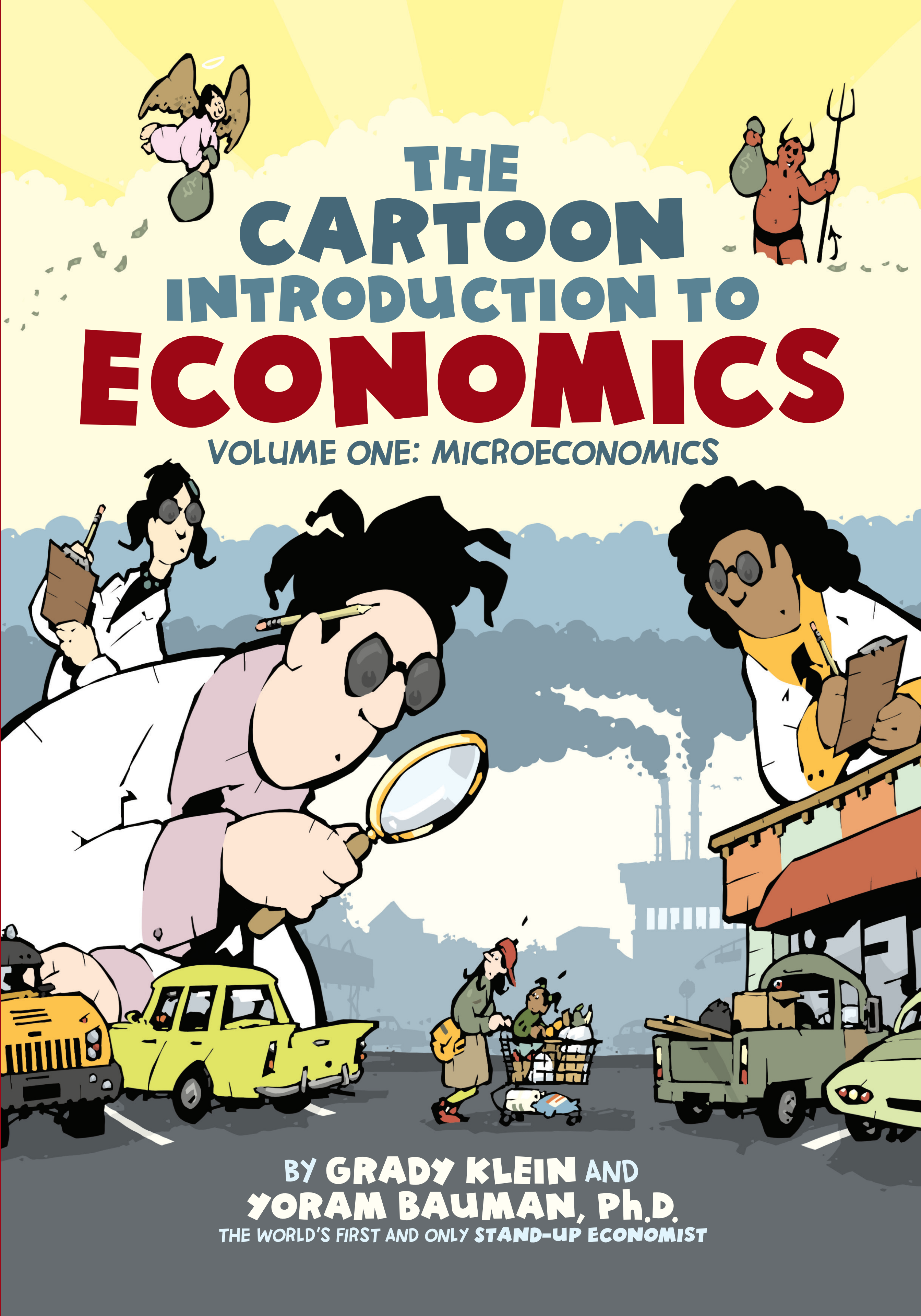
THE CARTOON INTRODUCTION TO ECONOMICS

VOLUME ONE: MICROECONOMICS



BY GRADY KLEIN AND
YORAM BAUMAN, Ph.D.
THE WORLD'S FIRST AND ONLY STAND-UP ECONOMIST

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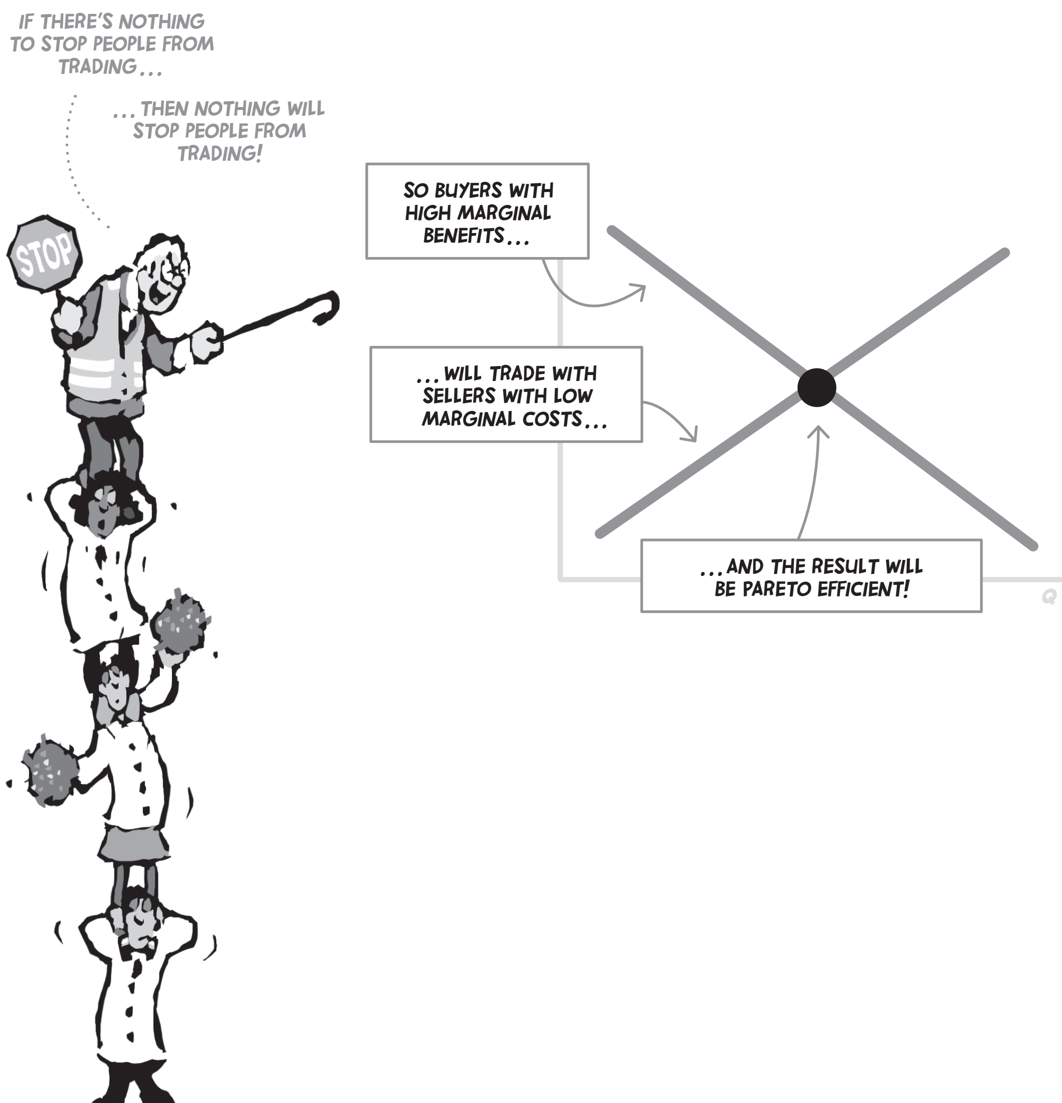
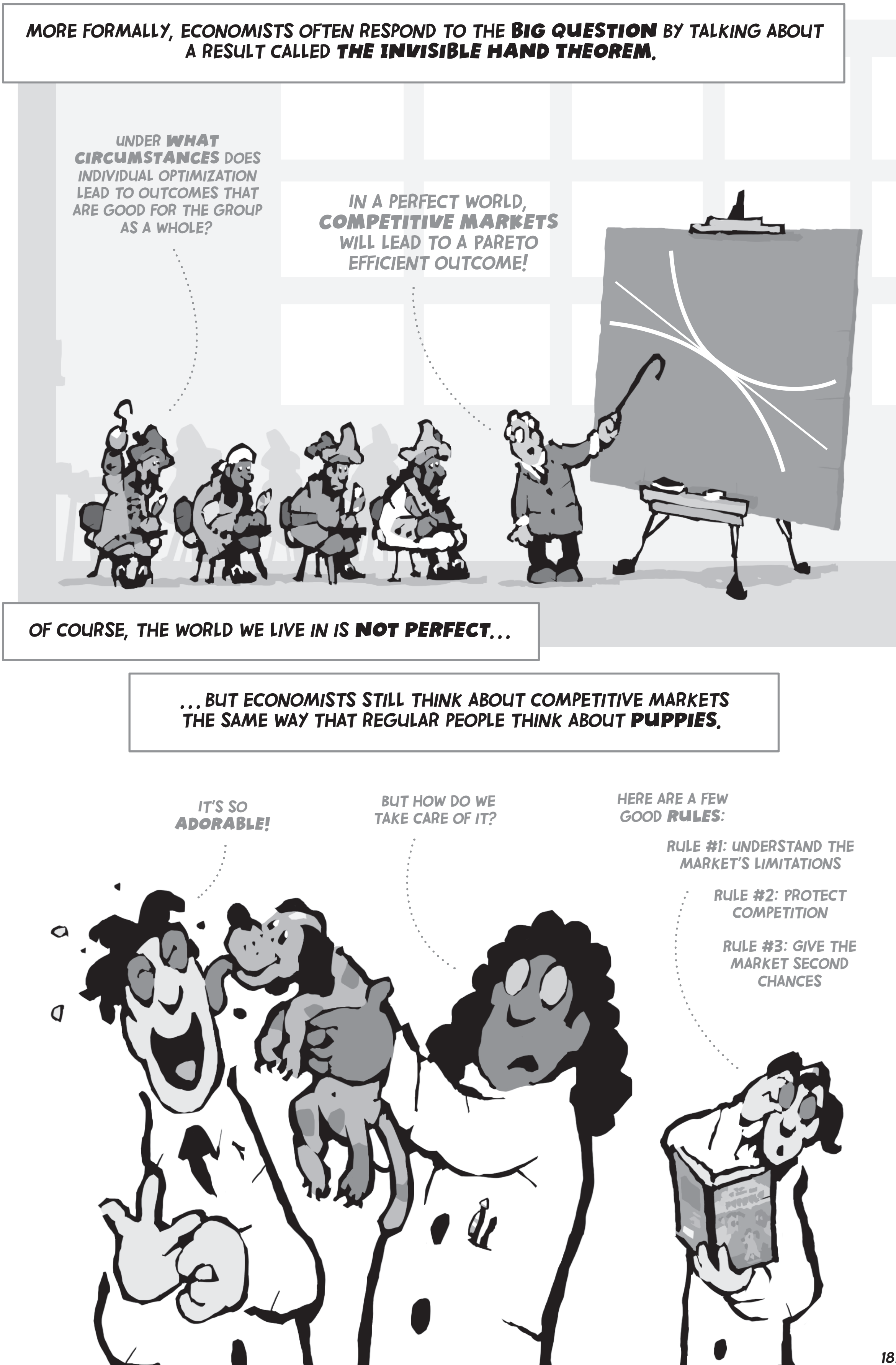
CHAPTER 15
THE BIG PICTURE

ECONOMISTS SEE THE WORLD **DIFFERENTLY.**

THE ECONOMIC WORLDVIEW IS STRONGLY INFLUENCED BY ONE SIMPLE IDEA:
COMPETITIVE MARKETS ARE GREAT!

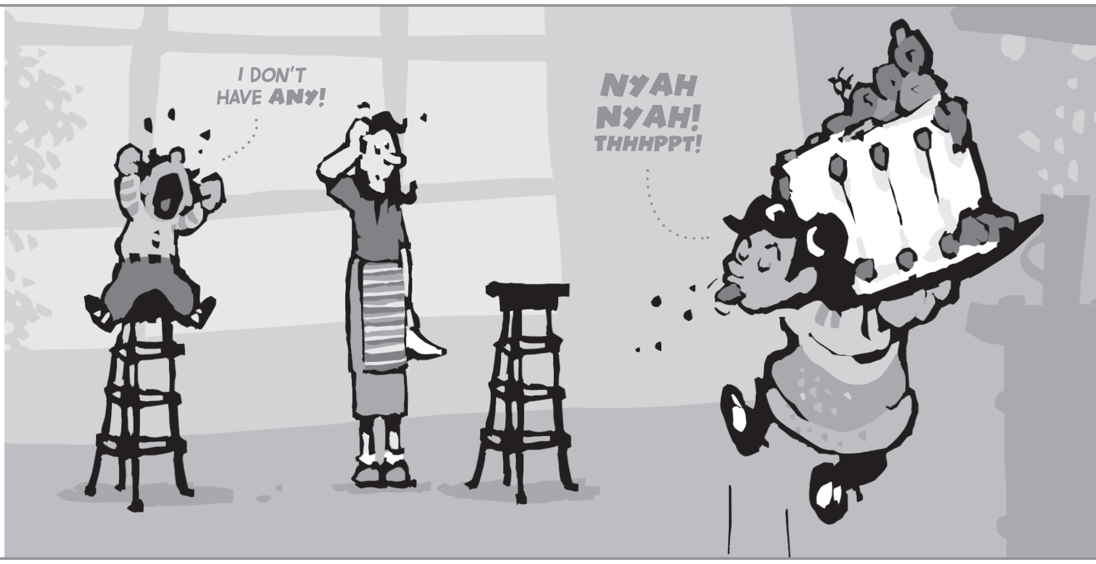
THE BENEFITS OF COMPETITIVE MARKETS CAN BE SEEN FROM THE **COASE THEOREM.**




MORE FORMALLY, ECONOMISTS OFTEN RESPOND TO THE BIG QUESTION BY TALKING ABOUT A RESULT CALLED THE INVISIBLE HAND THEOREM.
UNDER WHAT CIRCUMSTANCES DOES INDIVIDUAL OPTIMIZATION LEAD TO OUTCOMES THAT ARE GOOD FOR THE GROUP AS A WHOLE?
IN A PERFECT WORLD, COMPETITIVE MARKETS WILL LEAD TO A PARETO EFFICIENT OUTCOME!
OF COURSE, THE WORLD WE LIVE IN IS NOT PERFECT...
...BUT ECONOMISTS STILL THINK ABOUT COMPETITIVE MARKETS THE SAME WAY THAT REGULAR PEOPLE THINK ABOUT PUPPIES.
IT'S SO ADORABLE!
BUT HOW DO WE TAKE CARE OF IT?
HERE ARE A FEW GOOD RULES:
RULE #1: UNDERSTAND THE MARKET'S LIMITATIONS
RULE #2: PROTECT COMPETITION
RULE #3: GIVE THE MARKET SECOND CHANCES

RULE #1: UNDERSTAND THE MARKET'S LIMITATIONS.

JUST LIKE YOU CAN HAVE A **PARETO EFFICIENT** OUTCOME WHERE ONE KID GETS ALL THE CAKE...



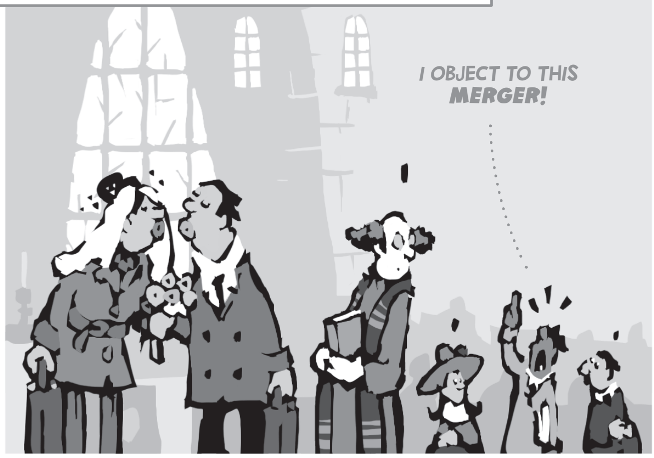
...YOU CAN HAVE COMPETITIVE MARKETS THAT LEAD TO OUTCOMES THAT **ARE PARETO EFFICIENT** BUT ARE **NOT** WHAT MOST PEOPLE WOULD CONSIDER TO BE **GOOD.**

BUT HERE TOO ECONOMISTS SEE THE WORLD **DIFFERENTLY.**

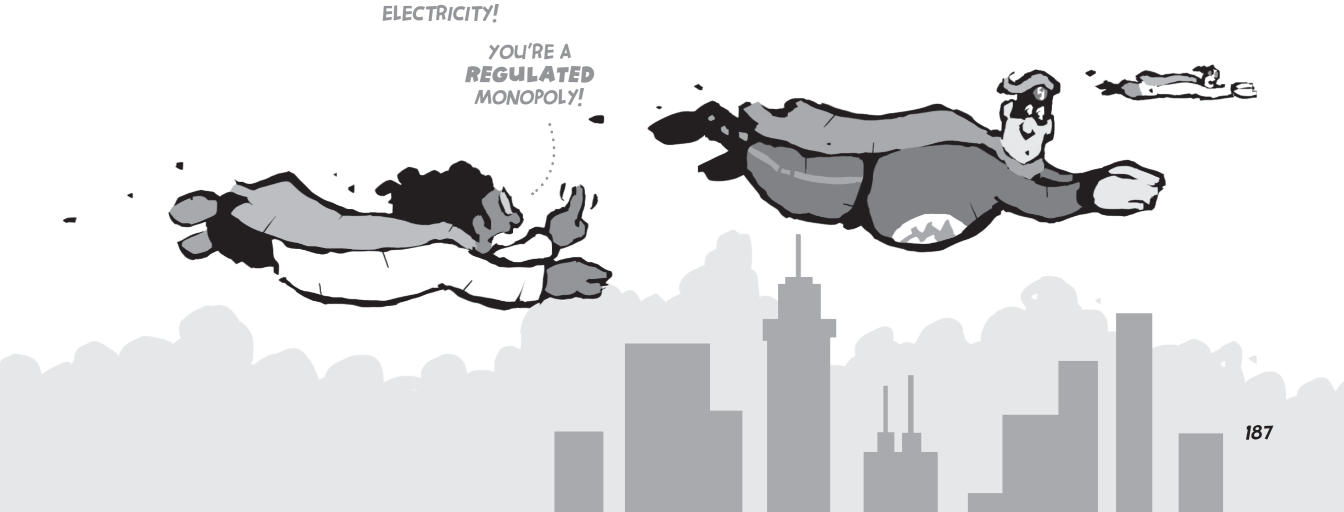

WHEN ADDRESSING INEQUALITY, ECONOMISTS TEND TO FAVOR POLICIES THAT MINIMIZE INTERVENTION IN WELL-FUNCTIONING COMPETITIVE MARKETS...
SOMETHING TELLS ME YOU SHOULD BE REALLY CAREFUL ABOUT WHERE YOU DROP THAT.
...AND MAXIMIZE INDIVIDUAL CHOICE.
INSTEAD OF DIRECTLY GIVING POOR PEOPLE GOODS AND SERVICES WE SHOULD JUST GIVE THEM MONEY.
THAT LEAVES AS MANY CHOICES AS POSSIBLE UP TO EACH INDIVIDUAL...
...AND WHO'S BETTER AT OPTIMIZING THAN THE INDIVIDUAL?
GIVING STARVING PEOPLE MONEY INSTEAD OF FOOD MAY SOUND ODD, BUT HISTORY SHOWS THAT MANY FAMINES WEREN'T CAUSED BY LACK OF FOOD BUT BY LACK OF MONEY.
RESEARCH BY AMARTYA SEN, WHO WON THE 1998 NOBEL PRIZE, SHOWED THAT SOME FAMINE-STRICKEN AREAS ACTUALLY EXPORTED FOOD.
LACK OF MONEY IS THE ROOT OF ALL EVIL.
CONGRATULATIONS, YOU WIN THE NOBEL PRIZE!


RULE #2: PROTECT COMPETITION.
IT'S DANGEROUS OUT THERE!
MARKETS NEED REFEREES...
OKAY, NO COLLUDING, NO PRICE FIXING, AND NO HITTING BELOW THE BELT!
...BECAUSE COMPANIES HAVE AN INCENTIVE TO FIX PRICES OR FORM CARTELS OR OTHERWISE ENGAGE IN ANTI-COMPETITIVE BEHAVIOR.
PSST...
IF WE BOTH CHARGE HIGH PRICES...
...THEN WE'LL BOTH MAKE MORE MONEY!
WE LEARNED THAT ON PAGE 102!

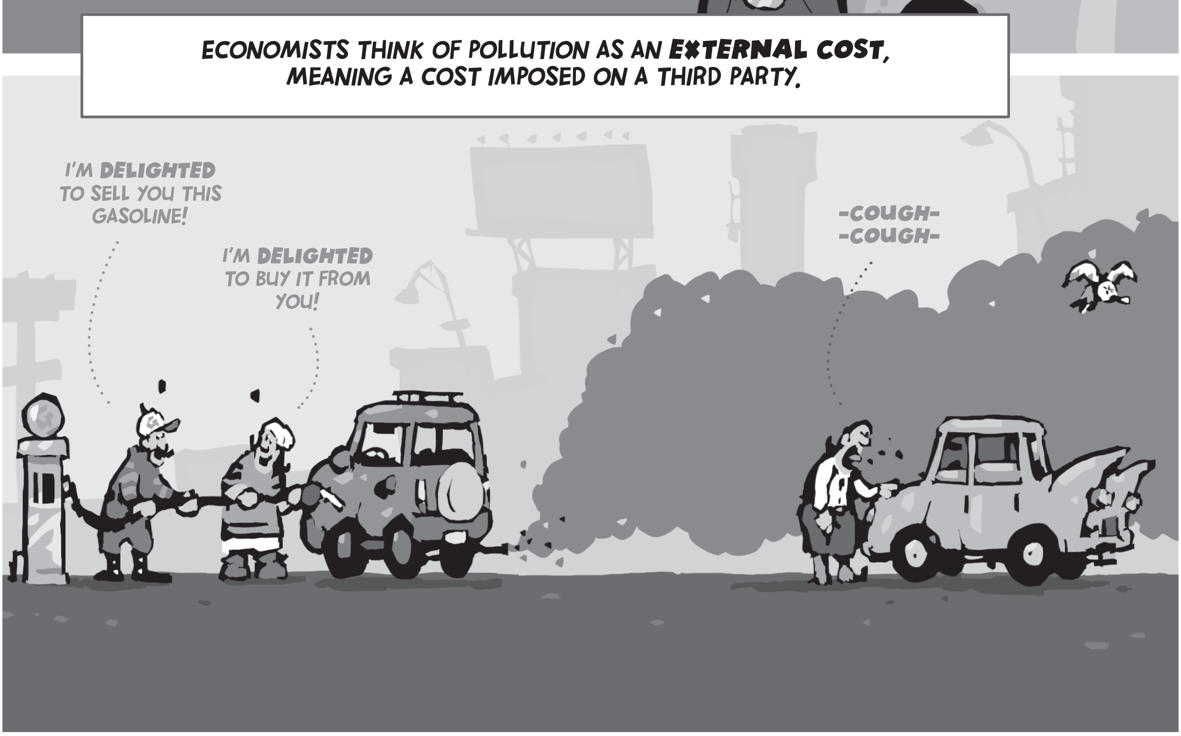
IN THE 19TH CENTURY, CARTELS WERE KNOWN AS **TRUSTS**, WHICH IS WHY POLICIES TO PROTECT COMPETITION ARE CALLED **ANTITRUST** POLICIES.

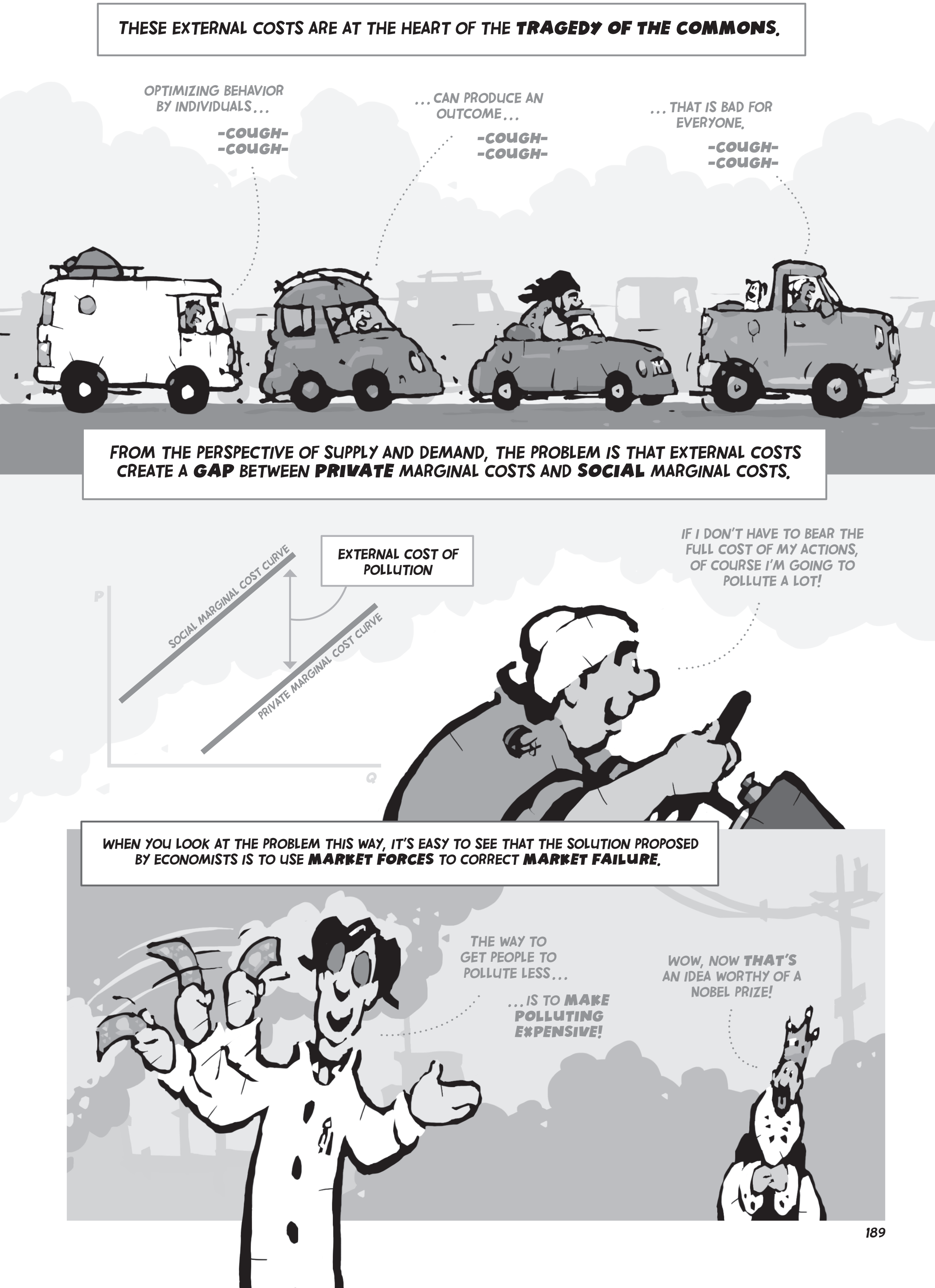


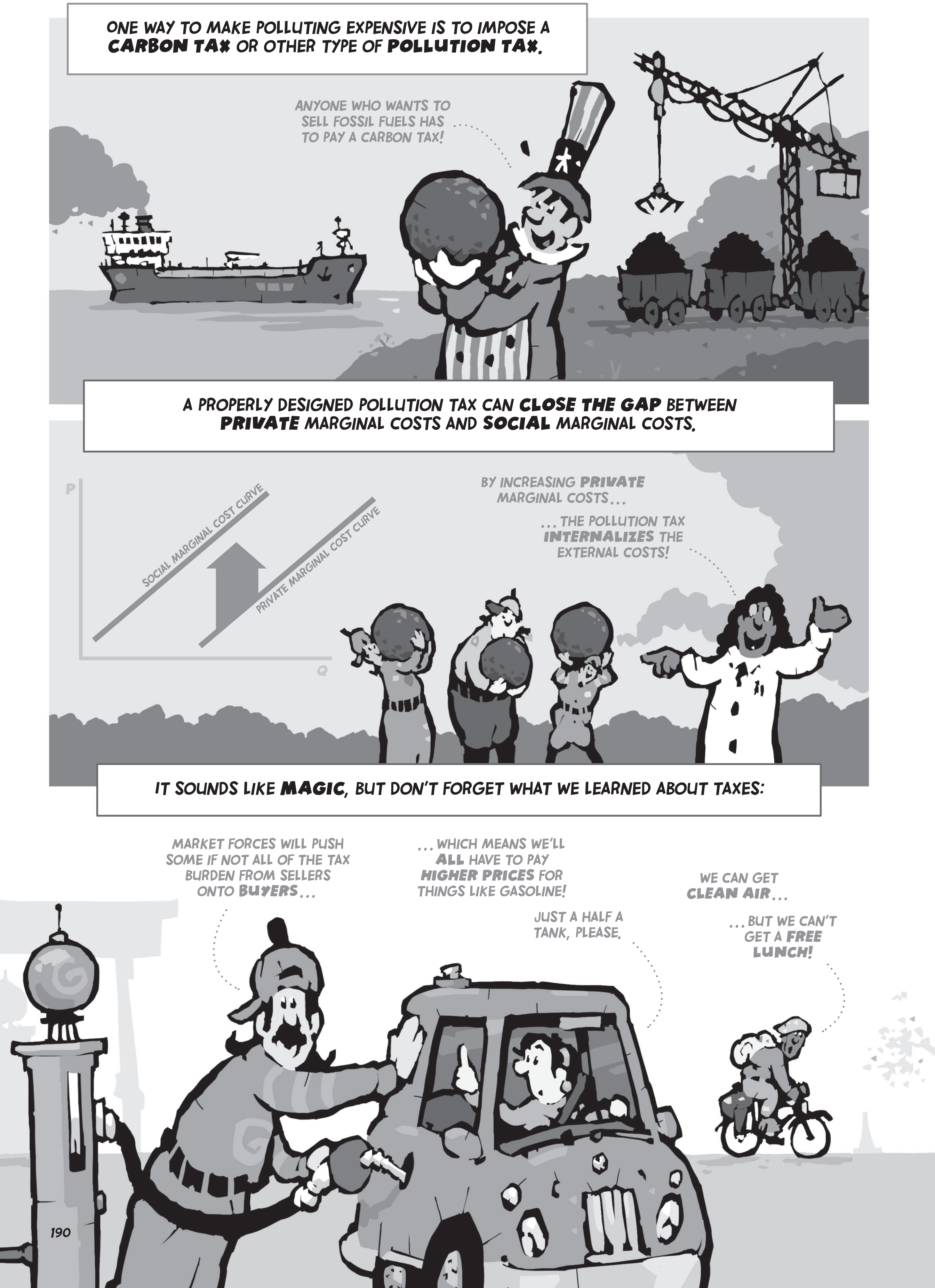
AND IN CASES WHERE COMPETITION IS LIMITED OR IMPOSSIBLE, GOVERNMENTS CAN WORK TO **LIMIT** THE EXTENT OF DAMAGE TO CONSUMERS.



RULE #3: GIVE THE MARKET SECOND CHANCES.




THESE EXTERNAL COSTS ARE AT THE HEART OF THE **TRAGEDY OF THE COMMONS.**
OPTIMIZING BEHAVIOR BY INDIVIDUALS...
-COUGH- -COUGH-
...CAN PRODUCE AN OUTCOME...
-COUGH- -COUGH-
...THAT IS BAD FOR EVERYONE.
-COUGH- -COUGH-
FROM THE PERSPECTIVE OF SUPPLY AND DEMAND, THE PROBLEM IS THAT EXTERNAL COSTS CREATE A **GAP** BETWEEN **PRIVATE** MARGINAL COSTS AND **SOCIAL** MARGINAL COSTS.
EXTERNAL COST OF POLLUTION
SOCIAL MARGINAL COST CURVE
PRIVATE MARGINAL COST CURVE
P
Q
IF I DON'T HAVE TO BEAR THE FULL COST OF MY ACTIONS, OF COURSE I'M GOING TO POLLUTE A LOT!
WHEN YOU LOOK AT THE PROBLEM THIS WAY, IT'S EASY TO SEE THAT THE SOLUTION PROPOSED BY ECONOMISTS IS TO USE **MARKET FORCES** TO CORRECT **MARKET FAILURE.**
THE WAY TO GET PEOPLE TO POLLUTE LESS...
...IS TO **MAKE POLLUTING EXPENSIVE!**
WOW, NOW **THAT'S** AN IDEA WORTHY OF A NOBEL PRIZE!


ONE WAY TO MAKE POLLUTING EXPENSIVE IS TO IMPOSE A **CARBON TAX** OR OTHER TYPE OF **POLLUTION TAX.**
ANYONE WHO WANTS TO SELL FOSSIL FUELS HAS TO PAY A CARBON TAX!
A PROPERLY DESIGNED POLLUTION TAX CAN **CLOSE THE GAP** BETWEEN **PRIVATE** MARGINAL COSTS AND **SOCIAL** MARGINAL COSTS.
P
SOCIAL MARGINAL COST CURVE
PRIVATE MARGINAL COST CURVE
Q
BY INCREASING **PRIVATE** MARGINAL COSTS...
...THE POLLUTION TAX **INTERNALIZES** THE EXTERNAL COSTS!
IT SOUNDS LIKE **MAGIC**, BUT DON'T FORGET WHAT WE LEARNED ABOUT TAXES:
MARKET FORCES WILL PUSH SOME IF NOT ALL OF THE TAX BURDEN FROM SELLERS ONTO **BUYERS**...
...WHICH MEANS WE'LL **ALL** HAVE TO PAY **HIGHER PRICES** FOR THINGS LIKE GASOLINE!
JUST A HALF A TANK, PLEASE.
WE CAN GET **CLEAN AIR**...
...BUT WE CAN'T GET A **FREE LUNCH!**


AN ALTERNATIVE TO A POLLUTION TAX IS A SYSTEM THAT INVOLVES A **CAP**...
WE'RE GOING TO ISSUE **PERMITS** FOR A **LIMITED AMOUNT OF POLLUTION**...
...AND YOU CAN'T POLLUTE WITHOUT A PERMIT!
...AND **TRADE.**
COMPANIES CAN **BUY OR SELL** PERMITS.
THIS GIVES THEM MAXIMUM FLEXIBILITY...
...SO THEY CAN MAKE PARETO IMPROVEMENTS BY TRADING!
CAP-AND-TRADE SOUNDS VERY DIFFERENT FROM A POLLUTION TAX, BUT IN FACT THEY'RE PRACTICALLY **IDENTICAL.**
THEY BOTH WORK BY **MAKING POLLUTION EXPENSIVE!**
NEITHER ONE IS **MAGIC**, BUT BOTH OF THEM DO COME WITH A **SPECIAL BONUS**...


THE SPECIAL BONUS OF POLLUTION TAXES IS THAT THEY GENERATE REVENUE...
CAP-AND-TRADE CAN ALSO GENERATE REVENUE...
...IF YOU USE AN AUCTION TO SELL THE PERMITS!


...AND WE CAN USE THIS REVENUE TO LOWER EXISTING TAXES.
LOWER TAXES ON WORKING!
LOWER TAXES ON SAVING!
LOWER TAXES ON INVESTING!
WHY TAX GOODS WHEN WE CAN TAX BADS?


THE WAY ECONOMISTS SEE THE WORLD, TAXES AND POLLUTION ARE TWO UNFORTUNATE REALITIES THAT GO GREAT TOGETHER!
IN THIS CASE, TWO WRONGS REALLY DO MAKE A RIGHT!
ISN'T THE WORLD HEAVENLY?

"LEARNING ECONOMICS SHOULD BE FUN. KLEIN AND BAUMAN MAKE SURE THAT IT IS."
—**N. GREGORY MANKIW**, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY, AND AUTHOR OF *PRINCIPLES OF ECONOMICS*

*GOOGLE'S CHIEF ECONOMIST, HAL VARIAN, ONCE WROTE, "YOU DON'T NEED A BRAND-NEW ECONOMICS. YOU JUST NEED TO SEE THE **REALLY COOL STUFF**, THE MATERIAL THEY DIDN'T GET TO WHEN YOU STUDIED ECONOMICS." THE CARTOON INTRODUCTION TO ECONOMICS IS ALL ABOUT INTEGRATING THE REALLY COOL STUFF—SUCH AS AUCTION THEORY, ADVERSE SELECTION, AND THE PRISONERS' DILEMMA—INTO THE **FUNNIEST** AND **MOST DIGESTIBLE** OVERVIEW OF MICROECONOMICS YOU'LL EVER READ.*

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"HAD ART SPIEGELMAN AND JOHN MAYNARD KEYNES COLLABORATED ON A COMIC BOOK ON ECONOMICS, THEY COULD ONLY HAVE DREAMED OF COMING UP WITH SOMETHING THIS GOOD." —**JONATHAN A. SHAYNE, A.K.A. MERLE HAZARD**, COUNTRY SINGER AND FOUNDER OF SHAYNE & CO., LLC

A FREELANCE CARTOONIST, ILLUSTRATOR, AND ANIMATOR, **GRADY KLEIN** IS THE CREATOR OF THE *LOST COLONY* SERIES OF GRAPHIC NOVELS.

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